

# TO THE QUESTION ABOUT ECONOMIC POLICY IN RUSSIA

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## ABSTRACT

*This article investigates the reasons for the negative state of the Russian economy. The author analyzes the internal and external factors affecting the domestic economy, as well as actions and measures taken by the federal bodies of executive power in recent years. Key indicators of the Russian economy that underpin the study are the price of oil, the average cost of a litre of petrol in the country, the exchange rate of the ruble against the U.S. dollar, and others.*

*The author critically evaluates the current monetary policy of the Central Bank of the Russian Federation, the main official purpose is to reduce the level of inflation in the country. Although in fact this policy is aimed at regulating the exchange rate of the Russian ruble against the key foreign currencies (USD and Euro) with the purpose of inadmissibility of incomes reduction of the Russian budget from fall in world oil prices.*

*As measures for changing the situation it is offered to curb speculation in global financial markets, in particular, the author proposes a corresponding mathematical formula, an inequality, compliance with which will reduce the gap between real asset price in the commodity market and the price specified in the derivative securities. For improvement the economic situation in Russia the author justifies the need for the development of regional stock exchanges in the country, the involvement of households in the financial market of the country, and they have put forward recommendations to change the policy of the Bank of Russia and the Ministry of Finance of the Russian Federation.*

**Keywords:** *economy, economic policy, currency market, stock market, oil market.*

## INTRODUCTION

The development of the Russian economy is characterized by the following negative aspects:

- dependence of the federal budget from the export of oil and gas products;
- underdevelopment of the financial market of the country;
- speculative development of the securities market and the foreign exchange market;
- etc.

We suppose that the causes of such phenomena may be ineffective policy of the Government of the Russian Federation, in particular, of the Ministry of Finance and the Central Bank of the Russian Federation. In this article we will review the situation in the Russian economy and will put forward recommendations for its improvement.

The scientific literature showed that the state of the Russian economy under Western sanctions, declining oil prices are explored by different authors, most of which are domestic researchers: Mau Vladimir, Ulyukaev Alexey (Vladimir Mau, Alexey Ulyukaev, 2015), Gurvich Evsey, Kudrin Alexey (Alexey Kudrin, Evsey Gurvich, 2015), and others. There are also

foreign publications in particular, Paul Roderick Gregory (Paul Roderick Gregory, 2015), Samuel Oakford (Samuel Oakford, 2015), and others. Mostly in these publications, or negative situation in the Russian economy is described, either indicates that the economy of Russia, despite the negative external factors is restored. In the available scientific works, almost no one criticizes the inefficient work of the Ministry of Finance of the Russian Federation, Bank of Russia.

## METHODS

Observation, analysis, deduction, modeling were used as research methods when writing the article.

## RESULTS

Table 1 presents some indicators of the development of the Russian economy in our opinion ([www.cbr.ru](http://www.cbr.ru); [www.rg.ru/2016/01/11/neft-site-anons.html](http://www.rg.ru/2016/01/11/neft-site-anons.html); [www.interfax.ru/business/350610](http://www.interfax.ru/business/350610), date of access 20.05.2016).

**Table 1**  
**ECONOMIC INDICATORS IN RUSSIA FOR 2012-2015**

	On average for 2015	On average for 2014	On average for 2013	On average for 2012
The cost of the currency basket, RUB.	64,32	44,18	36,63	35,05
The average value of the U.S. dollar, RUB.	61,52	38,60	31,91	31,08
The price of 1 barrel of Urals oil, \$	51,23	97,6	107,88	110,52
The price of 1 liter of Urals oil, \$ (1 barrel = 158,99 liters), \$	0,32	0,61	0,68	0,70
The price of 1 liter of Urals oil, RUB.	19,69	23,55	21,70	21,76
The price of 1 liter of gasoline АИ-92	33,00	32,00	31,00	30,00
The share of excise taxes in the price of gasoline, %	65	65	65	65
The price of 1 liter of gasoline АИ-92 without excise taxes	21,45	20,8	20,15	19,5

In table 1 we can draw the following conclusions:

- for the period from 2012 to 2015 the Russian ruble against the US dollar weakened and the price of a barrel of oil actually decreased in two times;
- if to eliminate the excise taxes from the price of Russian gas, the internal price of gasoline АИ-92 in Russia will actually be closer to the world price of 1 liter of crude Urals oil;
- there is an inverse relation between oil price and US dollar exchange rate, expressed in rubles;

- the price of 1 liter of oil in rubles at the exchange rate for the respective period has changed slightly, at the same time the fluctuations of the dollar are significant.

It is obvious that the world price of oil and the US dollar in rubles do not depend on a situation in the production and economic sphere, but from the situation of commodity and financial exchanges. And a negative factor accompanying the trade in oil and foreign currency assets is speculative, coupled with large-scale use of derivatives (especially futures contracts), that leads to a separation of the real market prices from the prices specified in the derivatives contracts.

In our view, with the implementation of trade with derivative financial instruments should apply the following inequality bounding the speculative growth of prices:

The price of a forward contract  $\leq$  The price of the underlying asset + appreciation of the asset during the period (over the risk-free interest rate) + margin of the seller (1)

According to the magazine "The Economist" the Russian ruble is undervalued by about 70%, based on the updated version of the "big Mac index". According to the calculations of experts, for one dollar could provide about 75 RUB (as at the beginning of 2016), and more than three times less - of 23.12 rubles ([www.rbc.ru/finances/11/01/2016/56939b969a79475fb2a3136b](http://www.rbc.ru/finances/11/01/2016/56939b969a79475fb2a3136b), date of access 20.05.2016)

We believe that the actions of the Central Bank of Russia on raising the key rate in December 2014 to 17% and on release of the ruble in "free floating" in terms of economic sanctions of Western countries were aimed at compensating the drop down of the Federal budget revenues from falling global oil prices. Increased the key interest rate in late 2014 - early 2015 gave the signal to market participants about significant deterioration of the Russian economy, the weakening of the ruble, which led to massive sales of the ruble and the purchase of foreign currency. Added to this mass panic of the population, who began to buy in stores durable goods, to somehow keep their point of view, the available money. These events led to a sharp weakening of the ruble, and the ruble against the dollar reached 70 rubles per 1 US dollar. Since Russian oil and gas is mainly sold for US dollars (Nadia Sabitova, Chulpan Shavaleyeva, 2015), the weakening of the ruble is almost two times resulted in losses to the Federal budget from the weakening of world prices of oil also doubled.

In 2016, thanks to the decision of the Russian Government excise taxes on gasoline were increased with the purpose of replenishment of the Federal budget deficit of the country, while real incomes fell.

In fact, it turns out that our state adds to the federal deficit at the expense of ordinary citizens.

As you know, the Central Bank of the Russian Federation conducts monetary policy aimed at reducing inflation and bringing it level to 4%. The Bank of Russia jointly with the Russian Government is implementing the capitalization of some commercial banks, using Federal loan bonds. In our view, this policy has a negative impact on the domestic economy slows down its development, because:

- borrowed resources for the majority of subjects remain inaccessible due to high interest rates, underdeveloped financial market of the country;

- funds allocated to banks for recapitalization are likely to be sent by banks not lending to the real sector of the economy, and on speculation in the financial markets. In particular, the examination of the financial statements of the largest commercial banks in Russia in recent years have shown an increase in the share of incomes from operations with securities;

- based on the logic of the Bank of Russia it turns out that with a lower inflation rate (4%) in the country will decrease the key rate will be available borrowed resources, which will lead to a rise in lending, increase in growth of the Russian economy. Because inflation may not arise or its value is not critical, if the allocated funds will be delivered to the intended recipient and is aimed at the development of the economy, the willful holding the key rate at 11% and continuing operations the Bank of Russia on the currency market, the lack of control over the operations of commercial banks with foreign currency lead to the conclusion about the irrationality, not to mention the inefficiency of the Russian economy of such operations.

## SUMMARY

In our opinion, the Bank of Russia and the Government of the Russian Federation with the help of the above-described actions will hinder the development of the Russian economy and degrade the position of its subjects as long as the world price of oil will not rise to be comfortable for the Russian budget level. After all, if it is to reduce the key rate to 4-5%, it will lead ultimately to increased demand for the Russian currency, consolidation and reduction of Federal budget revenues.

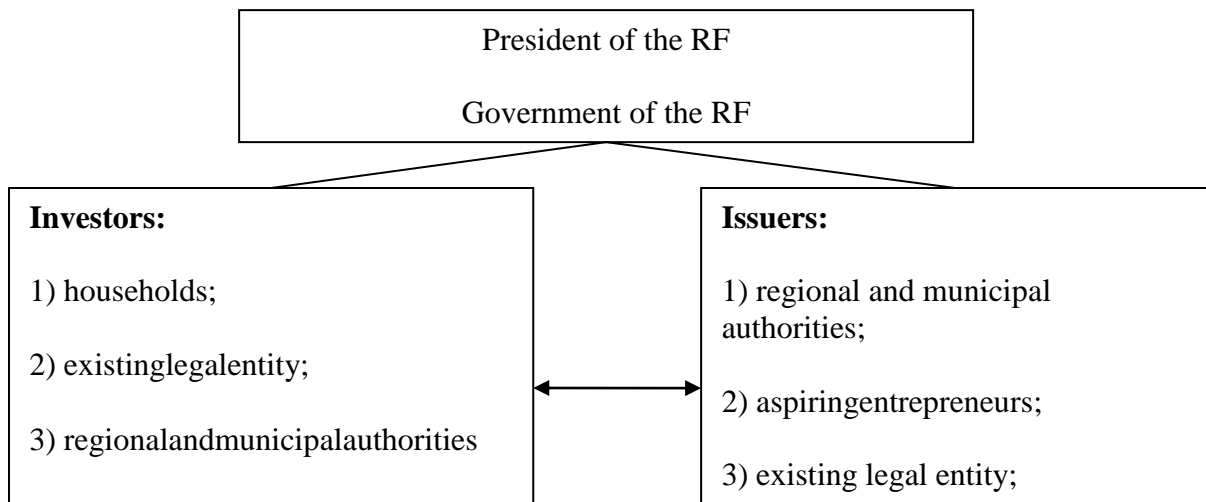
In the current environment it is an obvious need to find and use new instruments to attract financial resources in the state budget.

One option could be the development of regional stock exchanges in the country. In Russia, fully functional, only the Moscow exchange. This means that the main investment activity takes place in Moscow, namely, if some company from the Far East, Siberia and the Krasnodar territory wants to publicly raise financial resources through the issuance and subsequent sale of securities, in most cases it will have to do it through the Moscow exchange.

It is interesting the experience of the Tomsk region, placed the bonds among the population ([bonds.tomsk.ru/oblastnie-zaymi.html](http://bonds.tomsk.ru/oblastnie-zaymi.html), date of access 20.05.2016). The yield of such loans is around 12% per annum and is worthy for the population an alternative to Bank deposits, the nominal value of one bond is 1 000 rubles, and then buying bonds available to most households. At the same time the Tomsk region administration uses internal investment resources to Finance budget needs. We believe that the experience of the Tomsk region should be used in all regions of Russia.

Budgetary system of the Russian Federation can be raised from tax revenues newly created and already operating business entities that are in need of investment resources. With this purpose it is necessary to optimize the taxation of subjects of innovation activities (Kundakchyan R.M., Mokichev S.D., 2014) and developing the venture exchange platform, where aspiring and existing entrepreneurs will be able to meet their needs in investment resources. Using the experience of Tomsk region the main investors can be households, and to improve the reliability and trustworthiness of these sites the necessary state support and the creation of specialized hedge funds. Figure 1 displays the innovative mechanism of functioning of stock exchanges.

**Figure 1**  
**THE INNOVATIVE MECHANISM OF FUNCTIONING OF STOCK EXCHANGES**



The basis for building such sites may be the Internet-portal "gosuslugi.ru", with possible testing at a regional site in the Republic of Tatarstan through the website "uslugi.tatarstan.ru".

## CONCLUSION

Notwithstanding the above, it should be noted that Russia is taking measures to develop the economy, but these measures are either unavailable for all interested economic entities, or they affect only a sector of the economy, the fate of households is usually left without proper attention.

For example, Russia is implementing the program of import substitution of products aimed at creation and development of competitive domestic analogues of foreign equipment, of goods to reduce dependence on Western countries in terms of external economic sanctions. In this case, the terms of the loans from the state programme on import substitution are:

- total project budget of 100 million rubles;
- existence of co-financing of the project by the applicant, private investors or Bank loans in the amount of not less than 30% of the project budget;
- loan term - from 5 to 7 years;
- etc.

Obviously, these terms are impossible or difficult for the majority of the enterprises of small and medium-sized businesses, and was developed under the existing large enterprises, including state-owned. But we know that is most adapted to creating innovation and changing external conditions it is the small companies provided adequate funding for their activities.

We believe that the establishment of regional stock markets (Fig.1) (Ramazanov A.V., Grigorian K.A., 2015) will allow not only to use the unused investment resources of citizens, but also enhances the involvement of households in the economy, increase financial literacy, and will ultimately contribute to economic growth (Nizamutdinov I.K., Malaev V.V., 2014).

An effective measure for further strengthening the Russian economy may be the reduction or removal of excise duties on fuel because of low fuel prices will help reduce the cost of goods and services due to lower transport cost. Thus based on the interdependence of markets

(Safiullin L.N.Fatkhiyev A.M.Grigorian K.A., 2014), it can be argued that in the subsequent positive effect of lower fuel prices will affect other sectors of the economy.

Our proposed measures to change economic policy in Russia is quite simple to implement, do not require significant cash outlay by the state, and we are confident in their positive effect.

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